

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

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November 12, 2009

Mr. Dan Spears
Financial Advisory Services Officer
Substance Abuse and Mental Health Services Administration
OPS, Division of Grants Management
1 Choke Cherry Road, Suite 7-1091
Rockville, MD 20850

RE: Responses to Findings in Internal Control and State and Federal Compliance
Audit Report for the Fiscal Year Ended June 30, 2007

Dear Mr. Spears:

The purpose of this letter is to respond to the findings from the California Bureau of State Audits single state audit for the fiscal year ending June 30, 2008. The following information is provided in addition to that published in the audit report. I have also enclosed copies of the findings.

Reference Number: 08-1-11

Auditor Recommendation: ADP should establish policies and procedures that include reviewing the subgrantees' supporting documentation to ensure that SAPT funds are spent only for allowable activities and costs.

Response: ADP provided the following response to the condition cited by the auditor:

"Title 45 CFR 96.31 (b) states:

'Title 45 CFR 96.31 (b) Subgrantees

State or local governments, as those terms are defined for purposes of the Single Audit Act Amendments of 1996, that provide awards to a subgrantee, expending \$300,000 (or other amount as specified by OMB) in Federal awards in a fiscal year, shall:

- (1) Determine whether subgrantees have met the audit requirements....
- (2) Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subgrantee made in accordance with the Act or through other means (e.g. program reviews) if the subgrantee has not had such an audit."



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“ADP meets this requirement. All counties receiving SAPT Block Grant funds are also audited in accordance with the requirements set forth in the Office of Management Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. ADP reviews Audit findings related to SAPT Block Grant funds, assures that corrective actions are taken, and recovers funds as necessary.

“In e-mails sent by ADP to the Bureau of State Audits (bureau) on February 9, 2009, and February 10, 2009, ADP confirmed that reviewing A-133 audit reports is one of the processes and procedures ADP uses to determine whether the counties spent SAPT Block Grant funds for allowable activities.”

In the final audit report, the auditor concurred that ADP's citation of 45 CFR 96.31 is correct; that is, it meets the federally established requirements in 45 CFR 96.131(b).

However, the auditor seems to have added an additional condition:

“... it [ADP] fails to mention that in its 2007 SAPT application it reported to the federal government that, in addition to the A-133 audits, ADP would also conduct financial and compliance audits on some number of its subgrantees each year. ADP also reported that these audits are designed to rely upon A-133 audits that have been conducted. Further, ADP reported that a primary focus of its financial and compliance audits is to ensure that SAPT grant and various other Federal and State funding sources are charged for their fair share of costs. Thus, it is inappropriate for ADP to now state that its reviews of the subgrantees' A-133 audit reports alone meet the requirement for ensuring that SAPT funds are spent only for allowable activities and costs. “

Response: ADP does not agree with the auditor's assessment. According the federal regulation and the auditor's own statement, ADP meets the requirement.

Following is the information provided in the FFY 2007 SAPT Block Grant Application footnotes for the Program Performance Monitoring checklist:

“Other - Audit Requirements

“The Single Audit Act of 1984 sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of States, local governments, and nonprofit organizations expending federal awards. Providers subject to Office of Management and Budget Circular A-133 (A-133) are required to obtain audits annually. ADP reviews these audit reports and assures overpayments are recovered and corrective actions are taken. In addition to the A-133 audits, ADP conducts financial and compliance audits on some number of SAPT Block Grant recipients each year. Audits are designed to rely upon A-133 audits that have been conducted. A primary focus is to ensure that SAPT Block Grant and various other federal and State funding sources are charged for their fair share of costs.”

ADP does not conduct A-133 audits. The financial and compliance audits performed by ADP are carried out pursuant to California Health and Safety Code, Section 11817.8 (b), which requires that ADP conduct a sufficient number of audits to provide reasonable assurance that funds administered by ADP are used for their intended purpose. The financial and compliance audits are meant to provide this assurance for the State General fund, Drug Medi-Cal funds and federal funds. A-133 §____.215 requires that any additional audits of federal funds be planned and performed in such a way as to build upon work performed by other [A-133] auditors. As noted above, when ADP conducts the financial and compliance audits, it relies on A-133 audits of SAPT Block Grant funds.

ADP conducted three audits in Fiscal Year 2007-08 that included SAPT funds for Fiscal Year 2004-05 (see attached table). ADP conducts these audits in arrears.

Further Auditor Comment: Furthermore, as we discuss in our finding number 2008-13-22, ADP has not appropriately followed up on audit findings reported in its subgrantees' A-133 audit reports and it has failed to appropriately follow-up with subgrantees that have not submitted their A-133 audit reports to the State in timely manner.

Response: ADP does not agree with the auditor's recommendation in reference Number 2008-13-22. Please see that response, below.

ADP has established policies and procedures pursuant to federal regulation applying to the SAPT Block grant to ensure that this federal award is expended only for allowable costs and activities.

Reference Number: 2008-13-22

Auditor Recommendations:

ADP should ensure that staff follow up with counties that have not submitted their OMB Circular A-133 audits.

ADP should also work closely with the SCO to ensure that it receives those county OMB Circular A-133 audit reports that have audit findings promptly.

Finally, ADP should ensure that it issues management decisions on audit findings within six months after the SCO receives the counties' OMB Circular A-133 audit reports.

ADP's response to these recommendations is included in the Reference Number 2008-13-22, (enclosed).

Response to Auditor's Comments on Department's View:

ADP works closely with the State Controller's Office (SCO). Of the six subgrantees mentioned by the Auditor, one was given an extension and the other five reports were rejected. Based on the information ADP received from the SCO, letters were sent to the counties that had rejected reports. The letters included the corrections that needed to be made and the timeframe for re-submission of the reports to the SCO. ADP did not follow-up with the counties because that would have been duplicating the efforts of the SCO. In January 2009, the SCO stated that the pass-through agency (ADP) was now responsible for follow-up. ADP took the necessary steps in following up once ADP was notified.

With regard to the two subgrantees that did not submit their A-133, they were included as part of SCO's notification process to counties that had not submitted reports and were being allowed reasonable time to respond. It was not until January 2009 that SCO notified ADP that SCO was no longer going to follow-up with those delinquent counties and that it was now ADP's responsibility to conduct the follow-up. Once SCO made this notification, ADP took the necessary steps in following up.

ADP is following the processes established by the State Administrative Manual to review audit findings, issue management decisions, assures that corrective actions are taken, and recovers costs. ADP continues to work closely with the SCO to comply with the State Administrative Manual Section 20070, which establishes procedures for audits of Federal pass-through funds.

Reference Number: 2008-8-9

Auditor Recommendation: ADP should ensure that it monitors the counties' expenditures and follows up on any discrepancies between their allocations and expenditures promptly.

Response: ADP conducts a quarterly review of county expenditures as part of its procedures to maximize the use of SAPT Block Grant funds. However, there are times when a county does not expend all of its allocated funds and it is too late within the period of availability to redirect those funds. When this occurs, ADP follows other processes and procedures to recover the funds. These processes and procedures occurred in State Fiscal Year 2008-2009 in relation to questioned costs. ADP provided the Auditor with a copy of the settlement letter ADP sent to Alpine County on January 30, 2009. ADP invoiced the county on February 26, 2009, invoice # 10468, for \$31,536. All amounts have been paid. Please see the enclosed documentation.

Reference Number: 2008-2-7

Auditor Recommendation:

ADP should establish a quality control process to ensure that it correctly charges payroll costs to the proper PCA codes for SAPT. Additionally, ADP should promptly make adjustments for any discrepancies that come to its attention.

Response:

ADP began using electronic time sheets to report the August 2009 pay period. An Administrative Bulletin, which provided information about the new electronic timesheet process and instructions for use, was sent to all staff. Timekeepers have been given additional instruction for reviewing the timesheet. The Accounting Office is reviewing late timesheets and entering adjusted timesheets, when necessary.

The bulletin, a copy of the timesheet/instructions, and additional instructions for timekeepers are attached.

Thank you for the opportunity to provide this additional information, and for your consideration of it. If you have any questions regarding the information provided, please contact me at (916) 322-3014.

Sincerely,

ALICE HUFFAKER
Chief
Office of Grants Management